

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 PA-02
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OPIC-06 LAB-04 SIL-01 AGRE-00 PM-04 DODE-00 /098 W
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R 101710Z DEC 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 2877

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

UNCLAS SECTION 1 OF 2 SAN SALVADOR 5614

E.O. 11652: N/A

TAGS: EFIN, EAID, ES

SUBJECT: CENTRAL GOVERNMENT BUDGET FOR 1977

REF: (A) SAN SALVADOR A-31 (5/11/76) (B) SAN SALVADOR A-57
(7/20/76) (C) SAN SALVADOR 0046

SUMMARY: ON 11/30/76 PRESIDENT MOLINA PRESENTED CY 1977 GOES
GENERAL BUDGET TO LEGISLATIVE ASSEMBLY FOR REVIEW. ASSEMBLY
EXAMINATION IS GENERALLY RUBBER STAMP AND APPROVAL IS EX-
PECTED BY THIRD WEEK IN DECEMBER. CY 1977 BUDGET AT 1,069.4
MILLION (COLONES \$428 MIL.) IS FIRST BILLION COLON BUDGET
AND CONTINUES TREND OF CY 1976, THAT IS, RESTRAINT ON CURRENT
EXPENDITURES AND SIGNIFICANT EXPANSION OF CAPITAL OUTLAYS.
EMBASSY WILL PREPARE DETAILED ANALYSIS AFTER COMPLETE BUDGET
IS RELEASED. EN SUMMARY.

1. ON 11/30/76 PRESIDENT MOLINA PRESENTED CALENDER YEAR
1977 CENTRAL GOVERNMENT BUDGET TO THE LEGISLATIVE ASSEMBLY
FOR APPORVAL. ASSEMBLY REVIEW IS GENERALLY PERFUNCTORY AND
BUDGET SHOULD BE PASSED BEFORE CHRISTMAS. CY 1977 BUDGET OF
1,069.4 MILLION COLONES (428 MILLION DOLLARS), WHILE SOMEWHAT
LARGER THAN THE CY 1976 BUDGET, CONTINUES TO REFLECT AUSTERITY
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OF CURRENT EXPENDITURES AND EXPANSION ON CAPITAL ACCOUNT.

CY 1977 BUDGET IS 26.5 PERCENT OVER CY 1976 BUDGET WHICH IN TURN WAS 24.5 PERCENT OVER CY 1975'S BUDGET.

2. BREAKDOWN OF MAJOR 1977 GENERAL BUDGET EXPENDITURES WITH CHANGES OVER 1976 AND PERCENT OF TOTAL 1977 BUDGET IS AS FOLLOWS:
(ALL FIGURES IN MILLIONS OF COLONES. ONE COLON EQUALS \$0.40)

	1977	PERCENT INCREASE 1976 77 OVER 76	PERCENT OF 77 TOTAL	
GENERAL BUDGET	1,069.4	845.2	26.5	
CURRENT EXPEND- ITURES	693.5	606.2	14.4	64.8
CAPITAL EXPEND- ITURES	375.9	238.9	57.3	35.2
EDUCATION	266.7	216.3	23.3	24.9
PUBLIC WORKS	178.5	120.5	28.1	16.5
PUBLIC HEALTH	120.6	104.1	15.8	11.3
AGRICULTURE	95.2	84.0	13.3	8.9
ECONOMIC MINISTRY	54.1	52.2	3.6	5.1
DEFENSE AND PUBLIC SECURITY	82.9	60.5	27.0	7.5

3. INCREASE IN 1977 CURRENT EXPENDITURES OF 14.4 PERCENT IS DOWN FROM 1976 WHEN CURRENT EXPENDITURES INCREASED BY 23 PERCENT OVER 1975. PARTIAL EXPLANATION IS LOWER WAGE INCREASES SCHEDULED FOR GOES EMPLOYEES DURING 1977. WAGE INCREASES IN 1976 COST 60 MILLION COLONES WHILE PROGRAMMED SALARY INCREASES FOR 1977 WILL COST 44 MILLION. CY 1977 WILL BE ANOTHER STRONG YEAR FOR GOES LARGE SCALE PROJECTS WITH CAPITAL BUDGET UP

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57.3 PERCENT OVER 1976. CY 1976 CAPITAL BUDGET RECORDED ONLY A 28.0 PERCENT RISE OVER 1975. CAPITAL EXPENDITURES AS PERCENT OF TOTAL BUDGET WILL GROW FROM 28.3 PERCENT IN 1976 TO 35.6 PERCENT IN 1977. BREAKDOWN OF MAJOR CAPITAL EXPENDITURES BY SECTOR PROGRAMMED FOR 1977 IS AS FOLLOWS: (MILLIONS OF COLONES)

SECTOR	CAPITAL EXPENDITURES	PERCENT OF TOTAL
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CAPITAL BUDGET

PUBLIC WORKS	121.8	32.4
AGRICULTURE	45.3	12.1
EDUCATION	55.8	14.8
ECONOMIC MINISTRY	31.8	8.4
HEALTH	25.7	6.8

4. COMMENTS ON GOES CENTRAL GOVERNMENT BUDGET ARE DIFFICULT BECAUSE OF TENDENCY TO TRANSFER ACTIVITIES TO AUTONOMOUS AGENCIES WHOSE BUDGETS ARE NOT COMPLETELY REFLECTED IN GOES GENEHAL FUND. ALSO IT IS USUAL FOR GOES TO PASS EXTRA BUDGET ALLOWANCES DURING YEAR AS NEED ARISES AND AS GOVERNMENT OBTAINS BETTER PICTURE OF ACTUAL INCOME (SEE A-57, 7/20/76 FOR EVALUATION OF ACTUAL GOES INCOME AND EXPENDITURES THROUGH 1975). FOLLOWING COMMENTS ON 1977 BUDGAT SHOULD BE CONSIDERED AS EVALUATION OF THE BUDGET AS A YEARLY PLANNING DOCUEMTN.

(A) THE EDUCATION SECTOR'S BUDGET, WHILE UP 23.3 PERCENT FALLS SHORT OF ITS 1976 INCREASE OF 34.4 PERCENT. DECLINE IS PROBABLY DUE TO DOWNWARD TREND IN WAGE INCREASES. DURING 1976, WAGES ACCOUNTED FOR 2/3 OF TOTAL EDUCATION EXPENDITURES. ON THE CAPITAL SIDE, THE EDUCATION SECTOR WILL RECEIVE A SIGNIFICANT INCREASE IN FUNDS, 56.3 PERCENT OVER 1976.

(B) PUBLIC WORKS AGAIN SHOWED A STEEP INCREASE OF 48.1 PERCENT IN 1977 MATCHING THE 49.5 PERCENT INCREASE IN 1976 OVER 1975. PUBLIC WORKS AND DEFENSE WERE THE ONLY TWO MAJOR AREAS INCREASING THEIR PERCENTAGE SHARE OF THE TOTAL 1977 UNCLASSIFIED

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BUDGET. PUBLIC WORKS CAPITAL EXPENDITURES INCREASEDF 48.2 PERCENT OVER 1976. THIS REFLECTS MAJOR EXPENDITURES PLANNED ON HIGHWAYS AND URBAN ROADS CONSTRUCTION THROUGH 1977.

(C) THE INCREASE IN THE PUBLIC HEALTH SECTOR OF THE BUDGET AT 15.8 PERCENT DID NOT KEEP PACE WITH OVERALL BUDGET INCREASES AND IS LESS THAN ITS 26.4 PERCENT GAIN IN 1976. CAPITAL EXPENDITURES FOR THIS SECTOR DID NOT INCREASE SIGNIFICANTLY AS COMPARED TO THE OVERALL GROWTH IN THE CAPITAL BUDGET 14.2 PERCENT FOR THE SECTOR AS COMPARED TO 57.3 PERCENT OVERALL. CAPITAL EXPENDITURES IN THE HEALTH AREA AS A PERCENT OF TOTAL CAPITAL BUDGET DECREASED FROM 9.4 PERCENT IN 1976 TO 6.8 PERCENT IN 1977.

(D) ALLOCATIONS TO AGRICULTURE INCREASED 13.3 PERCENT IN

1977. THE 1976 RISE OVER 1975 WAS ONLY 8.1 PERCENT.
OVERALL BUDGET OUTLAYS IN THIS AREA STILL LAG BEHIND TOTAL
BUDGET INCREASES.

(E) MINISTRY OF ECONOMY EXPENDITURES WILL INCREASE BY 3.6
PERCENT IN 1977 IN CONTRAST TO 1976 WHEN THIS MINISTRY WAS
THE ONLY ONE REGISTERING A DECREASE (4.7 PERCENT). IN THE
CAPITAL EXPENDITURE PORTION OF THE BUDGET, PROGRAMMED
EXPENDITURES BY ECONOMY WILL DECREASE BY 3.3 PERCENT. YEAR-
TO-YEAR COMPARISONS OF THE BUDGETS OF MINISTRIES OF AGRI-
CULTURE AND ECONOMY ARE DIFFICULT TO MAKE SINCE A LARGE
NUMBER OF ACTIVITIES HAVE BEEN SPLIT OFF INTO AUTONOMOUS
AGENCIES.

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INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 PA-02
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FM AMEMBASSY SAN SALVADOR
TO SECSTATE WASHDC 2878
INFO AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
RUESJOXAMEMBASSY SAN JOSE 3520
AMEMBASSY TEGUCIGALPA

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(F) AFTER AN INCREASE OF ONLY 6.5 PERCENT IN 1975, SPENDING
IN THE AREA OF DEFENSE AND PUBLIC SECURITY WILL GROW STRONGLY.
THE 1977 INCREASE OF 27.0 PERCENT IS CLOSE TO THE 26.5 PERCENT
RISE IN 1976. DEFENSE'S SHARE OF OVERALL BUDGET, NOW AT 7.7
PERCENT, IS CREEPING BACK TOWARDS THE 8 PERCENT OF TOTAL
ALLOATION THIS SECTOR HAD IN 1974. MILITARY EXPENDITURES AS
A PERCENT OF TOTAL GNP REMAIN SMALL WITH ONLY A SLIGHT
INCREASE FROM 1976 TO 1977. DEFENSE AND PUBLIC SECURITY
EXPENDITURES AS APERCENT OF GNP WERE 1.1 PERCENT IN 1976

AND ARE ESTIMATED TO BE 1.3 PERCENT IN 1977.

5. ALONG WITH GENERAL FUND BUDGET, PRESIDENT MOLINA SUBMITTED TO THE ASSEMBLY A PROPOSED LAW THAT WOULD ALTER THE STRUCTURE OF THE GENERAL FUND AND ESTABLISH THE MECHANISM FOR A "FUND FOR THE FINANCING OF INVESTMENTS FOR ECONOMIC DEVELOPMENT". THIS FUND, WITH AN INITIAL ALLOCATION OF 75 MILLION COLONES, WILL BE USED BY THE GOVERNMENT FOR ECONOMIC DEVELOPMENT AND AS A MEANS FOR OVERCOMING SHORTFALLS IN GOVERNMENT INCOME AS A RESULT OF FUTURE DECLINES IN THE WORLD PRICE OF COFFEE.

6. MINISTRY OF FINANCE EXPECTS COLONS 200 MILLION (\$80
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MIL.) SURPLUS OF CURRENT REVENUE OVER CURRENT EXPENDITURE FOR 1977. RECEPITS FROM AD VALOREM EXPORT TAX ON COFFEE WILL INCREASE GREATLY BECAUSE OF HIGH INTERNATIONAL PRICE AND GREATER VOLUME OF COFFEE EXPORTS AND YIELD OF INCOME TAX IS EXPECTED TO CONTINUE INCREASING. CAPITAL PORTION OF BUDGET WILL BE FINANCED BY CURRENT ACCOUNT SURPLUS, SALE OF ABOUT COLONS 150 MILLION IN GOVERNMENT BONDS AND EXTERNAL LOANS. ACCORDING TO FIANCE MINISTRY SOURCE, SALE OF BONDS IS INTENDED TO SOAK UP SOME OF EXCESS LIQUIDITY EXPECTED IN 1977 AS RESULT OF MASSIVE INFLOW OF COFFEE RECEIPTS. FOREIGN LOASN WILL NOT BE INFLATIONARY ACCORDING TO SAME SOURCE BECAUSE THEY WILL BE USED PRIMARILY TO FINANCE IMPORTS OF CAPITAL EQUIPMENT. ACCORDINGLY, IN SPITE OF SUBSTANTIAL INCREASE IN EXPENDITURES, 1977 BUDGET SHOULD NOT BE EXPANSIONARY.
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